

FIRST ANNUAL

REPORT OF

BELFAST PETROLEUM INC.

FOR THE YEAR ENDING

DECEMBER 31, 1994

TO THE SHAREHOLDERS OF
BELFAST PETROLEUM INC.

The Corporation's net income before income taxes for the year ended on December 31, 1994, is \$19,968. Its earnings, after provision for income taxes of \$14,000, was \$5,968. Its cash flow was \$54,939.00. Based on the issued and outstanding common shares (undiluted by warrants or options) of 1,920,000 shares, the Corporation had a cash flow of \$0.03 per share in its first full year of operations.

The Corporation participated in the drilling of six (6) oil wells and no gas wells in the year ending on December 31, 1994. This drilling resulted in one dry hole and 5 completions. All wells were drilled on the Corporation's Alberta Crown leases in Section 32-50-1W4M at Lloydminster in which Belfast has a 21% working interest, subject to Crown Royalty and ARTC. The last two wells were drilled at the end of 1994 and were placed on production early in January 1995. The costs and the income from the last two wells are not reflected in the 1994 financial statements. The current production from these Lloydminster wells is approximately 165 barrels per day, with Belfast's share being 35 barrels per day. The operator of these lands has proposed a re-completion of two of these wells in the 6D-32 and the 4D-32 locations. The proposals are being evaluated. The operator has proposed the drilling of two further locations on Section 32 on a 10 acre spacing basis. The Corporation has maintained its 21% working interest on all these lands up to this point in time. A well on the 1C-32 location is expected to be drilled in early Summer of this year. It is expected that re-completions will be attempted on the 4D-32 and the 6D-32 wells this Summer.

The Corporation has continued its policy of maximizing its exploration and development activities and minimizing its general and administrative expenses. Belfast remains debt free and its current drilling commitments are fully funded. The program outlined in its Exchange Offering Prospectus ("EOP") dated August 19, 1994 is proceeding as expected. The Corporation's shares were called for trading on the Alberta Stock Exchange ("BPY" and "BPYWT") as of October 11, 1994.

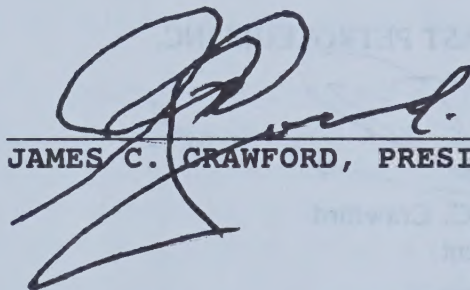
The Corporation has a 21% working interest on an additional quarter section at Lloydminster which may warrant exploration in 1995.

The Corporation's Common Share Purchase Warrants that entitled the holder of two warrants to purchase one common share at a price of \$1.00 per share, on or before May 1, 1995, have expired. Five hundred thousand (500,000) warrants were outstanding.

Management expects the price of heavy oil to increase over the year. The current price of its 14 degree gravity oil at Lloydminster is approximately \$127 per cubic meter or \$20.19 per barrel. If the price of crude increases and the differential between high gravity and heavy oil continues to narrow, this will have a significantly positive impact on Belfast's cash flow and earnings. Because the Corporation does not produce any natural gas, the currently depressed natural gas prices are not a factor in the affairs of Belfast.

Since the flow through share funds have now been expended in drilling, the Corporation will be able to utilize the balance of its own tax pools to defer income taxes in 1995.

Submitted on behalf of the Board of Directors of Belfast Petroleum Inc., this 12th day of May, 1995.

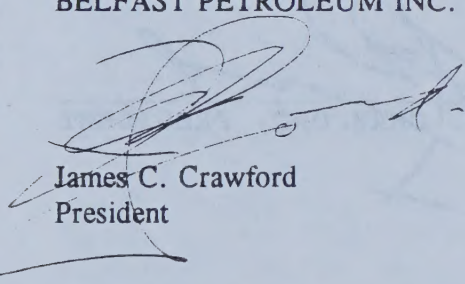


JAMES C. CRAWFORD, PRESIDENT

MANAGEMENT REPORT

The financial statements have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained therein.

BELFAST PETROLEUM INC.



James C. Crawford
President

BELFAST PETROLEUM INC.

Financial Statements December 31, 1994

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SHAIKH & SHIKAZE
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*Howard T. Shikaze

* Denotes Professional Corporation

AUDITOR'S REPORT

To the Directors of Belfast Petroleum Inc.

I have audited the balance sheet of Belfast Petroleum Inc. as at December 31, 1994 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and the results of operations and changes in financial position of the Company for the year then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
March 24, 1995

M. H. Shaikh Pz. Corp.

Chartered Accountant

BELFAST PETROLEUM INC.

Balance Sheet December 31, 1994 and 1993

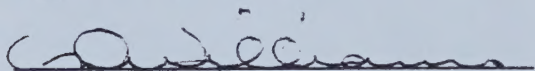
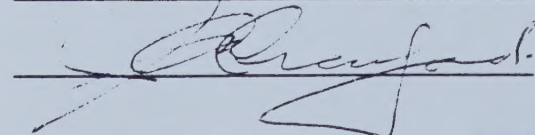
ASSETS

	<u>1994</u>	<u>1993</u>
Current		
Cash and short term deposits	\$ 362,425	\$ 72,084
Accounts receivable	14,665	-
Share subscriptions receivable (Note 3)	-	<u>22,500</u>
	<u>377,090</u>	<u>94,584</u>
Capital assets (Note 4)	228,507	161,101
Deferred organization costs	-	<u>3,083</u>
	<u>\$ 605,597</u>	<u>\$ 258,768</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 137,022	\$ 8,768
Income taxes payable	<u>651</u>	<u>-</u>
	<u>137,673</u>	<u>8,768</u>
Deferred income taxes	<u>3,335</u>	<u>-</u>
	<u>141,008</u>	<u>8,768</u>
Shareholders' equity		
Share capital (Note 5)	458,621	250,000
Retained earnings	<u>5,968</u>	<u>-</u>
	<u>464,589</u>	<u>250,000</u>
	<u>\$ 605,597</u>	<u>\$ 258,768</u>

Approved by the Board:

 Director
 Director

See accompanying notes

BELFAST PETROLEUM INC.

Statement of Operations and Retained Earnings

	Year Ended December 31, <u>1994</u>	Three and One-Half Month Period Ended December 31, <u>1993</u>
Revenue		
Oil and gas sales, net of royalties	\$ 96,448	\$ -
Interest income	<u>2,643</u>	<u>-</u>
	<u>99,091</u>	<u>-</u>
Expenses		
General and administrative	15,244	-
Oil and gas operating	28,257	-
Depletion and amortization	<u>35,622</u>	<u>-</u>
	<u>79,123</u>	<u>-</u>
Net income before provision for income taxes	<u>19,968</u>	<u>-</u>
Provision for income taxes (Note 6)		
Current	651	-
Deferred	<u>13,349</u>	<u>-</u>
	<u>14,000</u>	<u>-</u>
Net income and retained earnings, end of year	\$ <u>5,968</u>	\$ <u>-</u>
Basic earnings per share	\$ <u>0.004</u>	\$ <u>-</u>

See accompanying notes

BELFAST PETROLEUM INC.

Statement of Changes in Financial Position

	Year Ended December 31, <u>1994</u>	Three and One-Half Month Period Ended December 31, <u>1993</u>
Operating activities		
Net income for the year	\$ 5,968	\$ -
Add item not affecting cash		
Depletion and amortization	35,622	-
Deferred income taxes	<u>13,349</u>	<u>-</u>
Funds provided from operations	54,939	-
Net change in non-cash operating working capital	<u>114,240</u>	<u>8,768</u>
	<u>169,179</u>	<u>8,768</u>
Financing activities		
Share subscriptions receivable	22,500	(22,500)
Issuance of shares	342,000	250,000
Share issuance costs	<u>(19,814)</u>	<u>-</u>
	<u>344,686</u>	<u>227,500</u>
Investing activities		
Petroleum and natural gas property costs	(223,524)	(161,101)
Deferred organization costs	<u>-</u>	<u>(3,083)</u>
	<u>(223,524)</u>	<u>(164,184)</u>
Increase in cash during the year	290,341	72,084
Cash position, beginning of year	<u>72,084</u>	<u>-</u>
Cash position, end of year	\$ <u>362,425</u>	\$ <u>72,084</u>

See accompanying notes

BELFAST PETROLEUM INC.

Notes to Financial Statements **Year ended December 31, 1994**

1. Commencement of business

The Company was incorporated under the Business Corporations Act (Alberta) on September 14, 1993. The Company is engaged in the acquisition of, exploration for and the development of oil and natural gas in Alberta.

2. Summary of significant accounting policies

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The more significant of these accounting policies are the following:

a. Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized in cost centres and charged against earnings as set out below. Such costs include land acquisition, geological and geophysical, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells and related equipment.

Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion and amortization is provided on costs accumulated in producing costs centres using the unit of production method. For purposes of the depletion and amortization calculation, gross proved oil and gas reserves as determined by the management are converted to a common unit of measure on the basis of their approximate energy content.

The Company periodically reviews the costs associated with unproved properties and preproduction stage cost centres to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made.

BELFAST PETROLEUM INC.

Notes to Financial Statements **Year ended December 31, 1994**

2. Summary of significant accounting policies (continued)

The net carrying costs of the Company's oil and gas properties in producing costs centres is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances, less future general and administrative costs, financing costs and income taxes. Future net revenues have been calculated using prices in effect at the Company's year end without escalation or discounting.

b. Joint venture accounting

Substantially all of the exploration and production activities of the Company are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

c. Future removal and site restoration costs

Estimated future removal and site restoration costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated by management in consultation with engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and amortization expense and actual future removal and site restoration expenditures are charged to the accumulated provision account as incurred.

d. Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and equipment and share capital are reduced by the estimated income taxes related to the renounced income tax deductions when the expenditures are incurred.

BELFAST PETROLEUM INC.

Notes to Financial Statements Year ended December 31, 1994

2. **Summary of significant accounting policies** (continued)

e. **Income taxes**

The Company follows the tax allocation method of accounting for corporate income taxes. Deferred taxes are provided to the extent that current taxes have been reduced by claiming amounts, primarily exploration and development costs and capital cost allowance, in excess of the related depletion and amortization recorded in the financial statements.

f. **Earnings per share**

Earnings per share is calculated using the weighted monthly average number of shares outstanding (1994: 1,545,042). Fully diluted earnings per share is not disclosed as the effects of the assumed share purchase options and warrants as disclosed in Note 5c and Note 5d would be anti-dilutive.

3. **Share subscriptions receivable**

Share subscriptions receivable in 1993 represent the proceeds of the issue of 22,500 shares which were fully paid for on January 4, 1994.

4. **Capital assets**

	<u>1994</u>	<u>1993</u>
Petroleum and natural gas properties and equipment	\$ 264,129	\$ 161,101
Accumulated depletion and amortization	<u>35,622</u>	<u>-</u>
Net book value	\$ <u>228,507</u>	\$ <u>161,101</u>

5. **Share capital**

a. **Authorized**

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value

BELFAST PETROLEUM INC.

Notes to Financial Statements Year ended December 31, 1994

5. Share capital (continued)

b. Issued and outstanding

	<u>December 31, 1994</u>		<u>December 31, 1993</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Balance, beginning of year	1,300,000	\$ 250,000	-	\$ -
Issued pursuant to private placement for cash (Note 7)	120,000	72,000	1,300,000	250,000
Issued for cash (Note 5(d))	500,000	270,000	-	-
Tax effect of flow-through	-	(120,496)	-	-
Share issuance costs net of deferred income taxes (\$10,014)	<u>-</u>	<u>(12,883)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>1,920,000</u>	<u>\$ 458,621</u>	<u>1,300,000</u>	<u>\$ 250,000</u>

c. Share options

The Company has granted options to purchase 40,000 common shares at \$0.60 per share to directors of the Company expiring June 26, 1996.

Pursuant to an Agency Agreement, Yorkton Securities Inc. was granted an option to acquire up to 125,000 units at a price of \$0.60 per unit expiring October 12, 1995. Each unit consists of one common share and one common share purchase warrant. Two warrants entitle the holder to purchase one common share at a price of \$1.00 per share.

d. Warrants

During the year the Company issued 500,000 units at a price of \$0.60 per unit. Each unit consisted of one common share and one common share purchase warrant. Two warrants entitle the holder to purchase one common share at a price of \$1.00 per share at any time before May 1, 1995.

BELFAST PETROLEUM INC.

Notes to Financial Statements Year ended December 31, 1994

6. Income taxes

The provision for income taxes in the Statement of Operations varies from the amount that would be computed by applying the expected income tax rate of 44.3% to net earnings. The principal reasons for the difference between such "expected" income tax expense and the amount actually recorded are as follows:

	<u>December 31,</u> <u>1994</u>
Computed "expected" income tax expense	\$ 8,846
Increase (decrease) in income taxes resulting from:	
Crown royalty and mineral taxes net of Alberta	
Royalty Tax Credit	2,407
Resource allowance	(4,895)
Depletion of non-tax base assets	9,052
Other	<u>(1,410)</u>
	<u>\$ 14,000</u>

7. Related party transaction

During the year ended December 31, 1994 the Company issued 40,000 flow-through common shares at a price of \$0.60 to a director of the Company.

8. Comparative figures

The comparative figures were audited by another Chartered Accountant. The comparative financial statements do not include a statement of operations and retained earnings. The only activity of the Company had been directed toward the development of properties. The general and administrative functions of the Company had been performed by an officer of the Company at no cost.